

Arnold Schwarzenegger, Governor  
State of California  
Business, Transportation and Housing Agency

Department of Managed Health Care  
980 9<sup>th</sup> Street, Suite 500  
Sacramento, CA 95814  
(916) 255-2426 voice  
(916) 255-2280 fax  
swei@dmhc.ca.gov e-mail



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via electronic mail & UPS

Ms. Janette Lopez  
Chief Deputy Director  
California Managed Risk Medical Insurance Board  
1000 G Street, Suite 450  
Sacramento, CA 95814

**RE: EVALUATION OF VISION SERVICE PLAN MEDICAL LOSS RATIO SUBMISSION**

Dear Ms. Lopez:

The Department of Managed Health Care ("DMHC") is pleased to provide the Managed Risk Medical Insurance Board ("MRMIB"), Healthy Families Program ("HFP") with the following report regarding the evaluation of Vision Service Plan ("VSP") HFP loss ratio submission for the period July 1, 2007 through June 30, 2008. This report outlines the project objectives, methodology and results.

- I Objectives: The purpose of the loss ratio evaluation is to evaluate the underlying payments supporting the amount reported as benefits provided to HFP subscribers reported by VSP.

As part of this evaluation, DMHC will perform the following:

- A Determine whether 100% of the children who received services paid by VSP were enrolled in the HFP at the time the services or capitated coverage were provided;
- B Summarize the total claims payments within the detailed data provided by VSP and compare the total payments to the amount reported on Schedule 6 submitted by VSP;
- C Identify and document additional reimbursement made, other than payments to providers for services, by VSP, and evaluate the appropriateness of those payments to inclusion in the medical expenses reported on Schedule 6; and
- D Summarize the total payments made by VSP for the HFP subscribers, and based on the steps above, recalculate the loss ratio and compare it to the loss ratio submitted by VSP on Schedule 6.

To achieve the objectives outlined above, DMHC performs data analysis on information provided by MRMIB and VSP and corresponds with management personnel at VSP. Primary contacts at VSP were Julie Grosso, Client/Agency Audit Administrator, Dan Schauer, Underwriting Director, Darrin Furtado, Underwriting Manager, Erika Castillo, Account Manager, Kristi Cloud, Underwriting Analyst and Dana Dource, EDI Membership Lead.

The methodology and results for each of the objectives are described below.

## II Methodology

### A Determined whether 100% of the children who received services paid by VSP were enrolled in the HFP at the time the services were provided.

- (a) The Department obtained electronic files containing detailed claims payments made for HFP subscribers. Additionally, the Department obtained electronic files from MRMIB of all children eligible for which payments were made for benefits as a VSP subscriber during the period of July 1, 2007 through June 30, 2008.
- (b) Using the two files, the Department compared the Client Index Number ("CIN") and Date of Service on VSP's claims files to determine if there were any payments made by VSP for subscribers that were not eligible for benefits according to the eligibility file received from MRMIB.

Table 1 –Fee for Service for individuals that were not listed as eligible members per the data files provided by Maximus for the service periods under examination.

**Table 1** (Ineligible Expenditures)

Claims Payments Category	Data Base Total		Ineligible Data		
	Number of claims/services	Amount	Number of claims/services	Amount (footnote 1)	Percent Error on Amounts
Fee-for-Service Payments	211,615	\$25,994,080	766	\$95,919	0.37%

Notes for Table 1: FFS mismatches identified during the examination were identified to the Plan during the course of the examination. The discrepancies noted in the areas of FFS were considered to be *de minimus*, and although identified in Table 1 above, were not recommended as audit adjustments.

### B Summarized the total claims payments within the detailed data provided by VSP and compared the total payments to the amount reported on Schedule 6 submitted by VSP.

Using the electronic file received from VSP in Section II (A) (a) above, and VSP's Schedule 6 loss ratio submission provided by MRMIB, DMHC compared the total of the payments on the electronic files to the data on Schedule 6.

**Table 2** (difference between Sch 6 reported and database detail)

Description	Sch 6	Plan Data	Difference	Percent Difference
Fee-for-Service Payments	\$26,090,075	\$25,994,080	\$95,995	0.37%

*Footnote 1: This analysis represents payments made by the Plan to their contracted providers, not payments made by MRMIB to the Plans.*

**Note 1:** The data base provided by VSP was analyzed based on the period of service and has been determined to be the most accurate measure of medical expense for the period of the examination. The data base included a review of costs identified through June 2009 after the exam period. Expenses reported on Sch 6 were based on the cash payments made during the 12 months audited period.

**Note 2:** The difference noted between the Sch 6 and the Plan's detailed database were considered to be *de minimus*, and although identified in Table 2 above, were not recommended as audit adjustments.

**C Summarized the total payments made by VSP for the HFP subscribers, recalculated the loss ratio, and compared it to the loss ratio submitted by VSP on Schedule 6**

There were no material discrepancies noted in examination under items A and B. The Schedule 6 is accepted as reported.

Table3 – Detailed reconciliation of detailed data files to Schedule 6

**Table 3**

	CATEGORY	REPORTED ON SCHEDULE 6	BALANCE PER DMHC REVIEW	VARIANCE OVER/(UNDER)
	Subscriber Months	8,491,145	8,491,145	0
1	Premium Payments from State	\$27,935,810	\$27,935,810	\$0
	<b>Affiliated Entities and Nonaffiliated Entities</b>			
2	Incentive Payments to Affiliated Parties	\$0	\$0	\$0
3	Incentive Payments to Nonaffiliated Parties	\$0	\$0	\$0
4	Total Incentive Payments	\$0	\$0	\$0
	<b>Expenses</b>			
	<b>Vision Services:</b>			
5	Exams	\$8,870,122	\$8,870,122	\$0
6	Frames & Lenses	\$16,634,412	\$16,634,412	\$0
7	Contact Lenses	\$585,541	\$585,541	\$0
8	Other Services	\$0	\$0	\$0
9	Reinsurance Expenses	\$0	\$0	\$0
10	Incentive Pool Adjustment	\$0	\$0	\$0
11	TOTAL VISION SERVICES (Line 5 to Line 10)	\$26,090,075	\$26,090,075	\$0
A	Gross Profit	\$1,845,735	\$1,845,735	
B	MEDICAL LOSS RATIO	93.39%	93.39%	

### III Summary of Findings/Issues

- A. The Plan has been using the cash basis method instead of accrual method to report the total medical expenses on Sch 6. Since the difference between the reported expenses and the actual audited expenses is not material, changing of the accounting methodology was not proposed by the DMHC.
- B. In the Claims database submitted by the Plan, there were 3,275 records (totaling \$395,768) missing a CIN number. The total ineligible expense identified by using the CIN number totals \$593,134 including the above 3,275 records. The Plan stated that it had been relying more on SSN and other factors instead of the CIN number to verify the member's eligibility. DMHC's examiners applied alternative procedures by using the members' name and date of service to compare the Plan's database (ineligible expenses identified by using CIN) with MRMIB's eligibility database which helped narrow down the ineligible expenses to an immaterial amount of \$95,919.

Starting from July 17, 2009, the Plan modified its HFP Eligibility Verification Process by requiring that the correct CIN number must be verified before the Plan pays for each claim.

### III Limitations

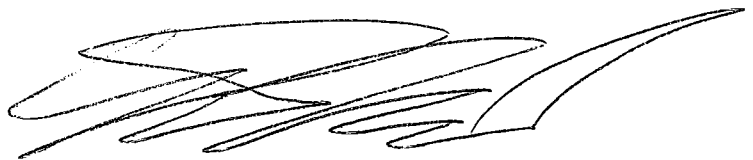
This analysis and report were prepared solely for the purpose of assisting MRMIB in the determination of the accuracy of payments made by VSP on their Schedule 6 Medical Loss Ratio Report. We have not performed an evaluation of the Company's internal controls within the guidelines set forth by the AICPA but have reported to you based upon the procedures performed. Our analysis has not been a detailed examination of all transactions, and cannot be relied upon to disclose errors, irregularities, or illegal acts, including fraud or defalcations that may exist.

Please feel free to call us if you have any questions pertaining to this report.

Sincerely,



Shuzhi Wei, Examiner  
Division of Financial Oversight



Stephen Babich, Supervising Examiner  
Division of Financial Oversight

cc: Lan Yan, Federal Compliance Auditor, MRMIB  
Tony Lee, Chief Fiscal Services, MRMIB